



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF MILAN
ERIE COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Milan
Erie County
24 Park Street
P.O. Box 1450
Milan, Ohio 44846-1450

To the Village Council:

We have audited the accompanying financial statements of the Village of Milan, Erie County, Ohio, (the Village) as of and for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2001 and 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2002 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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Erie County
Report of Independent Accountants
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This report is intended solely for the information and use of the audit committee, management, the Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

Jim Petro
Auditor of State

June 4, 2002

**VILLAGE OF MILAN
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Cash Receipts:					
Property Tax and Other Local Taxes	\$304,085	\$89,914	\$38,819	\$8,601	\$441,419
Special Assessments			6,424		6,424
Intergovernmental Receipts	126,621	44,375	117,415	1,384	289,795
Fines, Licenses, and Permits	45,231	778			46,009
Earnings on Investments	138,785	10,446			149,231
Miscellaneous	18,349	10,691			29,040
Total Cash Receipts	633,071	156,204	162,658	9,985	961,918
Cash Disbursements:					
Current:					
Security of Persons and Property	214,861	504		20,577	235,942
Leisure Time Activities	44,231				44,231
Community Environment	3,585				3,585
Transportation	95,910	56,720			152,630
General Government	72,504	2,995			75,499
Debt Service:					
Principal Payments			2,000		2,000
Interest Payments			4,440		4,440
Capital Outlay	2,061	14,511	314,907		331,479
Total Cash Disbursements	433,152	74,730	321,347	20,577	849,806
Total Receipts Over/(Under) Disbursements	199,919	81,474	(158,689)	(10,592)	112,112
Other Financing Receipts and (Disbursements):					
Sale of Bonds or Notes			149,823		149,823
Transfers-In			240,316	10,000	250,316
Transfers-Out	(55,249)	(186,383)	(25,000)		(266,632)
Other Uses	(741)				(741)
Total Other Financing Receipts/(Disbursements)	(55,990)	(186,383)	365,139	10,000	132,766
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	143,929	(104,909)	206,450	(592)	244,878
Fund Cash Balances, January 1	991,084	233,546	484,294	15,431	1,724,355
Fund Cash Balances, December 31	\$1,135,013	\$128,637	\$690,744	\$14,839	\$1,969,233
Reserves for Encumbrances, December 31	\$100	\$237	\$32,604		\$32,941

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF MILAN
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$1,356,915
Total Operating Cash Receipts	<u>1,356,915</u>
Operating Cash Disbursements:	
Personal Services	323,700
Transportation	3,868
Contractual Services	541,915
Supplies and Materials	54,158
Capital Outlay	<u>136,849</u>
Total Operating Cash Disbursements	<u>1,060,490</u>
Operating Income	<u>296,425</u>
Non-Operating Cash Receipts:	
Proceeds from Notes and Bonds	632,000
Other Non-Operating Receipts	<u>28,242</u>
Total Non-Operating Cash Receipts	<u>660,242</u>
Non-Operating Cash Disbursements:	
Debt Service	591,738
Other Non-Operating Cash Disbursements	<u>329,270</u>
Total Non-Operating Cash Disbursements	<u>921,008</u>
Excess of Receipts Over Disbursements Before Interfund Transfers and Advances	35,659
Transfers-In	91,316
Transfers-Out	<u>(75,000)</u>
Net Receipts Over Disbursements	51,975
Fund Cash Balances, January 1	<u>1,158,895</u>
Fund Cash Balances, December 31	<u><u>\$1,210,870</u></u>
Reserve for Encumbrances, December 31	<u><u>\$8,985</u></u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF MILAN
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Cash Receipts:					
Property Tax and Other Local Taxes	\$287,751	\$94,867	\$48,239	\$8,031	\$438,888
Special Assessments			6,674		6,674
Intergovernmental Receipts	82,519	49,649	54,257		186,425
Charges for Services	100				100
Fines, Licenses, and Permits	61,839	333			62,172
Earnings on Investments	143,636	10,812			154,448
Miscellaneous	1,536	9,493			11,029
Total Cash Receipts	577,381	165,154	109,170	8,031	859,736
Cash Disbursements:					
Current:					
Security of Persons and Property	204,604	36		16,023	220,663
Leisure Time Activities	6,712				6,712
Community Environment	2,957				2,957
Transportation	91,106	151,230			242,336
General Government	81,541	3,066			84,607
Debt Service:					
Principal Payments			1,000		1,000
Interest Payments			5,625		5,625
Capital Outlay	9,996	17,317	128,204		155,517
Total Cash Disbursements	396,916	171,649	134,829	16,023	719,417
Total Receipts Over/(Under) Disbursements	180,465	(6,495)	(25,659)	(7,992)	140,319
Other Financing Receipts and (Disbursements):					
Sale of Bonds or Notes	2,347				2,347
Transfers-In		1,571	431,492	10,000	443,063
Transfers-Out	(120,000)	(10,000)	(118,000)		(248,000)
Other Sources			560		560
Total Other Financing Receipts/(Disbursements)	(117,653)	(8,429)	314,052	10,000	197,970
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	62,812	(14,924)	288,393	2,008	338,289
Fund Cash Balances, January 1	928,272	248,470	195,901	13,423	1,386,066
Fund Cash Balances, December 31	\$991,084	\$233,546	\$484,294	\$15,431	\$1,724,355
Reserves for Encumbrances, December 31		\$6,400			\$6,400

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF MILAN
ERIE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$1,319,642
 Total Operating Cash Receipts	 <u>1,319,642</u>
Operating Cash Disbursements:	
Personal Services	286,879
Transportation	3,895
Contractual Services	584,208
Supplies and Materials	42,770
Capital Outlay	574,004
 Total Operating Cash Disbursements	 <u>1,491,756</u>
Operating Loss	<u>(172,114)</u>
Non-Operating Cash Receipts:	
Proceeds from Notes and Bonds	350,121
Other Non-Operating Receipts	21,990
 Total Non-Operating Cash Receipts	 <u>372,111</u>
Non-Operating Cash Disbursements:	
Debt Service	582,965
Other Non-Operating Cash Disbursements	2,710
 Total Non-Operating Cash Disbursements	 <u>585,675</u>
Excess of Disbursements Over Receipts Before Interfund Transfers and Advances	(385,678)
 Transfers-In	75,000
Transfers-Out	<u>(270,063)</u>
Net Receipts Over/(Under) Disbursements	(580,741)
 Fund Cash Balances, January 1	 <u>1,739,636</u>
Fund Cash Balances, December 31	<u><u>\$1,158,895</u></u>
 Reserve for Encumbrances, December 31	 <u><u>\$9,334</u></u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Milan (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer utilities, electric utilities, park operations, and police services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1)

The Village is a participant with twenty-one subdivisions within the State of Ohio in a joint venture to provide a source of supplemental capacity to the participants. On dissolution of the joint venture, the net assets of the JV1 will be shared by the participants on a percentage basis. The JV1 is managed by AMP-Ohio who acts as the joint venture's agent. The Village's net investment and its share of the operating results of JV1 ownership share of the project is .71 percent. Complete financial statements for JV1 can be obtained from AMP-Ohio at 2600 Airport Drive, Columbus, Ohio 43219 or from the Village's Administrator.

Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2)

The Village is a participant with thirty-six subdivisions within the State of Ohio in a joint venture for the costs of acquisition, construction and installation of the distributive generation to provide supplemental reserve electric power to the participants on a cooperative basis. Of the 36 participants, 16 are financing participants and 20 are non-financing participants. The financing participants will pay their portion to a debt service reserve fund on a monthly basis and the non-financing participants will pay their portion in a lump sum cash payment. The Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2) was created for that purpose and includes the buyout of the Ohio Municipal Electric Generation Agency Joint Venture 3 (JV3). On dissolution of the joint venture, the net assets of the JV2 will be shared by the participants on a percentage basis. The JV2 is managed by AMP-Ohio who acts as the joint venture's agent. The participants are obligated by the agreement to remit monthly costs incurred from using electricity generated by the joint venture and a portion of the \$50,260,000 bonds, by which a monthly payment is made to fund the debt service reserve fund for those financing participants. The Village is a non-financing participant in the JV2. The Village's net investment and its share of the operating results of JV2 ownership share of the project is .55 percent. Complete financial statements for JV2 can be obtained from AMP-Ohio at 2600 Airport Drive, Columbus, Ohio 43219, or from the Village's Administrator.

Ohio Municipal Electric Generation Agency Joint Venture 5

The Village is a participant with forty-two other municipalities within the State of Ohio in a joint venture to construct a hydroelectric plant and associated transmission facilities in West Virginia on the Ohio River at the Belleville Locks and Dam to generate electricity from its operation. The Ohio Municipal Electric Generation Agency Joint Venture 5 ("JV 5") was created for that purpose. On the dissolution of the joint venture, the net assets of JV 5 will be shared by the participants on a percentage basis. The JV 5 is managed by AMP-Ohio who acts as the JV 5's

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

agent. The participants are obligated by the agreement to remit monthly costs incurred from using electricity generated by the joint venture and a portion of the \$153,415,000 certificates of beneficial interest debt that was issued to construct the fixed asset. The Village remitted \$96,714 and \$92,018 for 2001 and 2000, respectively, to the joint venture. The Village of Milan's net investment and its share of the project is 0.39 percent. Complete financial statements for JV5 can be obtained from AMP-Ohio at 2600 Airport Drive, Columbus, Ohio 43219, or from the Village's Administrator. Each member is required to make debt service payments for the project based on their percentage of ownership. Payment began in 1994. The Village recovers these costs through charges to customers. The Village of Milan's share of this debt is as follows:

Year	Principal	Interest	Total	Village's Share
2002	\$3,280,000	\$7,631,361	\$10,911,361	\$42,554
2003	3,445,000	7,467,361	\$10,912,361	\$42,558
2004	3,620,000	7,295,111	\$10,915,111	\$42,569
2005	3,800,000	7,110,491	\$10,910,491	\$42,551
2006	4,000,000	6,910,991	\$10,910,991	\$42,553
2007-2024	123,555,000	72,867,885	\$196,422,885	\$766,049
Total	<u>\$141,700,000</u>	<u>\$109,283,200</u>	<u>\$250,983,200</u>	<u>\$978,834</u>

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Street Levy Fund - This fund receives property tax money for maintaining and repairing Village Streets.

3. Capital Project Fund

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise funds). The Village had the following significant capital project fund:

Capital Projects Issue II Fund - This fund receives Issue II monies to be used for various projects within the Village.

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Electric Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

5. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

VILLAGE OF MILAN
ERIE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)

Police Pension Fund - This expendable trust fund receives property tax money to pay the Village's portion of pension benefits for full-time police officers.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

	2001	2000
Demand deposits	\$173,327	\$109,664
Certificates of deposit	900,000	900,000
Total deposits	1,073,327	1,009,664
STAR Ohio	2,106,776	1,873,586
Total investments	2,106,776	1,873,586
Total deposits and investments	\$3,180,103	\$2,883,250

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the Village.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$472,425	\$633,071	\$160,646
Special Revenue	147,863	156,204	8,341
Capital Projects	40,000	552,797	512,797
Enterprise	1,774,899	2,108,473	333,574
Fiduciary	18,612	19,985	1,373
Total	\$2,453,799	\$3,470,530	\$1,016,731

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$695,231	\$489,242	\$205,989
Special Revenue	316,404	261,350	55,054
Capital Projects	924,625	378,951	545,674
Enterprise	2,195,912	2,065,483	130,429
Fiduciary	21,392	20,577	815
Total	\$4,153,564	\$3,215,603	\$937,961

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2000 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$484,413	\$579,728	\$95,315
Special Revenue	91,590	166,725	75,135
Capital Projects	0	541,222	541,222
Enterprise	1,666,050	1,766,753	100,703
Fiduciary	18,487	18,031	(456)
Total	<u>\$2,260,540</u>	<u>\$3,072,459</u>	<u>\$811,919</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$741,399	\$516,916	\$224,483
Special Revenue	260,830	188,049	72,781
Capital Projects	236,415	252,829	(16,414)
Enterprise	2,808,880	2,356,828	452,052
Fiduciary	16,000	16,023	(23)
Total	<u>\$4,063,524</u>	<u>\$3,330,645</u>	<u>\$732,879</u>

Contrary to Ohio law, appropriations exceeded estimated resources in the Capital Improvement, Issue II, Utility Building, Special Assessment, and Electric Debt Service funds for the year ended December 31, 2001.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

5. LOCAL INCOME TAX

The Village levies a municipal income tax of one-half percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. Pursuant to the Village's Codified Ordinances, eighty percent of the revenue is allocated to the General Fund and twenty percent is allocated to the Capital Improvement Fund.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$1,061,767	7.03%
Various Purpose Improvement Notes	310,000	3.98%
AMP-Ohio Loan	832,729	3.50%
Lockwood Road Project Bond	72,000	6.00%
Total	<u>\$2,276,496</u>	

The Ohio Water Development Authority (OWDA) loan relates to a water system improvement project. The loan agreement was entered into during August 1992. The original loan amount was \$1,287,380. The loans will be repaid in semiannual installments of \$55,385, including interest, over 20 years. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. The semiannual payment of \$55,385 due January 1, 2002 was paid by the Village prior to December 31, 2001. The outstanding debt principal schedule above and the amortization schedule below have been adjusted to reflect that this payment had been made during 2001.

The American Municipal Power-Ohio, Inc. (AMP-Ohio) loan relates to an electrical substation and distribution line construction project. The loan was entered into during January 1997, in the amount of \$700,000. In fiscal year 2001, an additional loan of \$422,000 was entered into to finance the construction of an electric service building and enter into OMEGA JV2 (Distributive Generation Project), a joint venture organized by AMP Ohio. The loans will be repaid in monthly installments over 10 years. Interest rates on the loans are adjusted annually. The interest rate for fiscal year 2002 will be at 2.10%. The amortization schedule below is based on an outstanding principal amount of \$828,000 at December 31, 2001, and final payment being made in December 2010.

The various purpose improvement note is a bond anticipation debt. It consists of \$60,000 of water system improvement debt and \$250,000 of sewerage system improvement debt.

**VILLAGE OF MILAN
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	OWDA Loan	AMP-Ohio Loan	Lockwood Road Bond	Various Purpose Improvement Notes
2002	\$55,385	\$107,153	\$6,320	\$322,388
2003	110,770	107,153	6,200	
2004	110,770	107,153	7,080	
2005	110,770	107,153	6,900	
2006	110,770	107,153	6,720	
2007 - 2011	553,850	428,611	32,840	
2012 - 2016	553,850		33,020	
2017 - 2019	221,540		21,340	
Total	<u>\$1,827,706</u>	<u>\$964,375</u>	<u>\$120,420</u>	<u>\$322,388</u>

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2001 and 2000, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contribution rate to 8.13%, effective July 1, 2000 through December 31, 2000. The Village has paid all contributions required through December 31, 2001.

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

The Village also provides health insurance to full-time employees through a private carrier.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Milan
Erie County
24 Park Street
P.O. Box 1450
Milan, Ohio 44846-1450

To the Village Council:

We have audited the accompanying financial statements of the Village of Milan (the Village) as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated June 4, 2002. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings as item 2001-30522-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 4, 2002.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated June 4, 2002.

Village of Milan
Erie County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

June 4, 2002

**VILLAGE OF MILAN
ERIE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2001-30522-001

Noncompliance Citation

Ohio Revised Code § 5705.39 provides that appropriations from each fund shall not exceed the estimated resources available for expenditure as certified by the county budget commission. In addition, it provides that no appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate of resources or amended official estimate of resources. At December 31, 2001, appropriations exceeded estimated resources as certified by the county budget commission in the following funds:

Fund	Esitmated Resources	Final Appropriations	Variance
Capital Improvement	\$114,878	\$130,000	(\$15,122)
Issue II	149,367	350,000	(200,633)
Utility Building	260,000	438,000	(178,000)
Special Assessment	49	6,625	(6,576)
Electric Debt Service		27,900	(27,900)

Sufficient revenues were received to permit the Clerk-Treasurer to obtain an amended certificate of estimated resources. The Clerk-Treasurer should monitor budgetary activity to ensure estimated resources are sufficient to cover amounts appropriated.



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VILLAGE OF MILAN

ERIE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 2, 2002**